

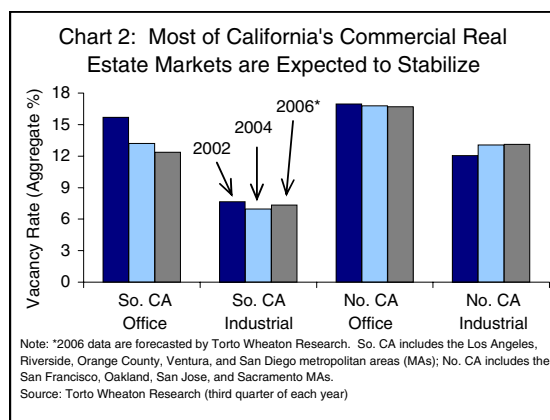
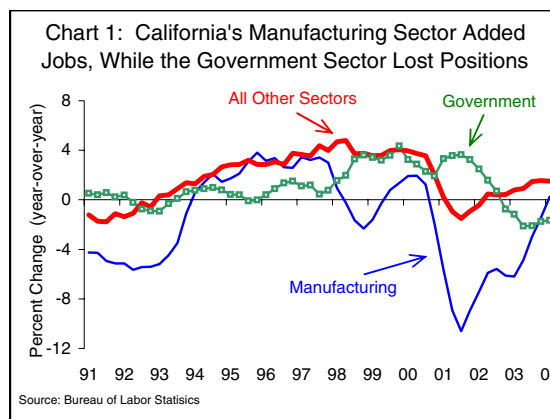
# FDIC State Profile

Winter 2004

## California

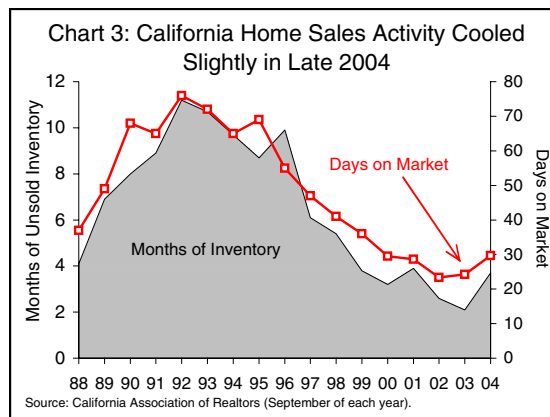
California's economy continued to expand.

- The state's year-over-year job growth, 0.9 percent, ranked 29<sup>th</sup> nationwide and reflected continued manufacturing- and government-related employment weaknesses, especially in the **San Francisco Bay Area**.<sup>1</sup>
- The services and construction sectors accounted for the majority of year-over-year job gains in third quarter 2004. Growth in these sectors was especially strong in **Southern California** and in the central and rural parts of the state. Future interest rate increases could dampen growth in the construction sector.
- For the first time in more than three years, California's manufacturing sector reported positive year-over-year job growth (See Chart 1). New manufacturing jobs were dispersed throughout the state, although the **Los Angeles**, **San Jose**, and **Sacramento** metropolitan areas reported continued manufacturing job declines. Renewed information technology demand, venture capital spending, and defense contract activity could benefit the sector.
- California's government sector reported its sixth consecutive quarter of year-over-year job losses, primarily in local government payrolls. The UCLA Anderson Forecast expects another 45,000 state and local government job losses by the end of 2005.



Office and industrial real estate conditions improved.

- Job growth in office-occupying sectors helped office market vacancy rates which, in third quarter 2004, declined from year ago levels in nearly all of the state's major metropolitan areas. Over the next two years, Torto Wheaton Research expects office vacancy rates to trend down slightly in Southern California but remain relatively unchanged in **Northern California** (See Chart 2).
- Improved manufacturing and port activity buoyed demand for industrial space. Industrial vacancy rates in Northern California are expected to remain relatively flat during



<sup>1</sup>San Francisco Bay Area includes the Oakland, San Francisco, San Jose, Santa Rosa, and Vallejo metropolitan areas and Southern California includes the Los Angeles, Orange County, Riverside, San Diego, Santa Barbara, and Ventura metropolitan areas.

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the next two years, while significant construction in the **Riverside** metropolitan area may lift overall industrial vacancies in Southern California.

- Among California-based insured institutions, median commercial real estate (CRE) loan-to-Tier 1 capital ratios moderated slightly year-over-year to 438 percent, but still ranked third among all states.<sup>2</sup> Construction and development (C&D) mortgages represented 65 percent of Tier 1 capital on a median basis, more than double the nationwide ratio.
- Low interest rates pushed the median annual growth in C&D loans and other types of CRE mortgages to 27 percent and 20 percent, respectively, among established institutions.<sup>3</sup> Growth was highest among Southern and central and rural California-based institutions, reflecting the San Francisco Bay Area's relative economic weakness. Portfolio seasoning or rising interest rates could translate into higher past-due CRE loan levels prospectively.

### Home price gains continued, but sales volumes moderated.

- As of August 2004, the California Association of Realtors' (CAR) Unsold Inventory Index increased year-over-year, especially in Southern California markets. Concurrently, the median time on market for detached homes increased to 30 days from 24 days (See Chart 3).
- The National Association of Realtors reported annual home price gains in each of the state's major metropolitan areas of at least 14 percent, nearly double the national rate. Housing affordability remained low and could deteriorate further as interest rates increase.
- The PMI Group reported that the chance of a decline in metro-area home prices over the next two years exceeded 50 percent in San Jose; 40 percent in **Oakland**, San Francisco, and **San Diego**; and 30 percent in Orange County, Sacramento, and Los Angeles.
- Among established insured institutions based in the state, the median year-over-year growth in 1-4 family mortgage loans was 10 percent, which is high relative to historical norms but low in relation to overall loan growth. Home equity lines of credit grew at twice the pace of total 1-4 family mortgages, albeit from a very low base.
- California home buyers have historically used adjustable-rate financing to offset high housing prices; thus, rising interest rates could affect the state disproportionately.

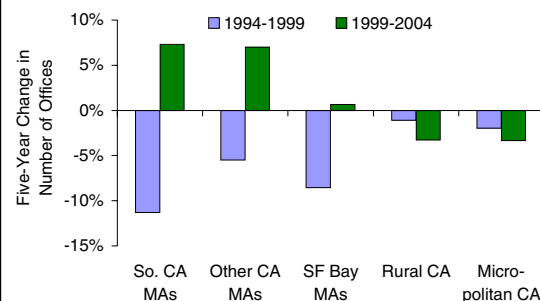
### Insured institutions expanded branch operations.

- Annual growth in the number of banking offices in California accelerated year-over-year through June 2004. Unlike the mid- to late-1990s when industry consolidation prompted branch closure activity, insured institutions added 318 offices during the past five years, including 105 offices in the past year.
- Increased bank chartering activity between 1999 and 2004 contributed to the trend. More than one-quarter of offices opened in the past five years were added by California-based de novo institutions, with charters in Southern California and the central and rural parts of the state accounting for the majority.
- Increases in banking offices during the past five years centered in Southern and central California's metropolitan areas, while rural and micropolitan areas reported net branch closings (See Chart 4).<sup>4</sup>

### Bank and thrift financial performance remained solid.

- The median return on average assets rose to 1.10 percent, outperforming a nationwide ratio of 1.05 percent. Lower overhead and provision expense burdens offset year-over-year declines in net interest income-to-average asset ratios. Net interest margins expanded on a quarterly basis, suggesting that further increases in short-term interest rates could strengthen margins.
- Delinquent loan ratios continued to decline across the state, possibly due in part to strong loan growth and low portfolio seasoning. Provision expenses kept pace with very low delinquency and charge-off activity but not overall loan growth. As a result, the median loan loss reserve-to-total loans ratio slipped to 1.24 percent among established institutions, down from 1.37 percent one-year earlier, but comparable to nationwide levels.

Chart 4: Banks Have Added Offices in Southern and Central CA After Years of Consolidation



Note: MA is metropolitan area. Source: FDIC/OTS Summary of Deposits

<sup>2</sup>CRE loans include construction and development, multifamily, and nonfarm-nonresidential mortgages.

<sup>3</sup>Established institutions include insured institutions open at least three years.

<sup>4</sup>For purposes of this section, a metropolitan area includes one or more urbanized areas with at least 50,000 residents, while a micropolitan area contains one or more urban clusters of between 10,000 and 50,000 inhabitants.

## California at a Glance

<b>General Information</b>	<b>Sep-04</b>	<b>Sep-03</b>	<b>Sep-02</b>	<b>Sep-01</b>	<b>Sep-00</b>
Institutions (#)	301	314	328	347	357
Total Assets (in thousands)	794,407,685	939,667,446	839,353,628	734,309,361	647,815,808
New Institutions (# < 3 years)	42	38	38	35	39
New Institutions (# < 9 years)	95	81	74	68	58
<b>Capital</b>	<b>Sep-04</b>	<b>Sep-03</b>	<b>Sep-02</b>	<b>Sep-01</b>	<b>Sep-00</b>
Tier 1 Leverage (median)	9.52	8.98	8.78	8.56	8.67
<b>Asset Quality</b>	<b>Sep-04</b>	<b>Sep-03</b>	<b>Sep-02</b>	<b>Sep-01</b>	<b>Sep-00</b>
Past-Due and Nonaccrual (median %)	0.35%	0.70%	0.83%	1.08%	0.98%
Past-Due and Nonaccrual >= 5%	8	14	19	26	20
ALLL/Total Loans (median %)	1.22%	1.31%	1.37%	1.40%	1.42%
ALLL/Noncurrent Loans (median multiple)	3.42	2.63	2.50	2.39	3.00
Net Loan Losses/Loans (aggregate)	0.14%	0.25%	0.36%	0.34%	0.28%
<b>Earnings (Year-to-Date Annualized)</b>	<b>Sep-04</b>	<b>Sep-03</b>	<b>Sep-02</b>	<b>Sep-01</b>	<b>Sep-00</b>
Unprofitable Institutions (#)	37	31	41	44	34
Percent Unprofitable	12.29%	9.87%	12.50%	12.68%	9.52%
Return on Assets (median %)	1.10	1.07	1.06	1.01	1.11
25th Percentile	0.69	0.61	0.58	0.56	0.70
Net Interest Margin (median %)	4.38%	4.41%	4.60%	4.79%	5.32%
Yield on Earning Assets (median)	5.38%	5.69%	6.44%	8.06%	8.77%
Cost of Funding Earning Assets (median)	1.00%	1.26%	1.79%	3.26%	3.49%
Provisions to Avg. Assets (median)	0.13%	0.16%	0.20%	0.17%	0.19%
Noninterest Income to Avg. Assets (median)	0.58%	0.69%	0.67%	0.66%	0.69%
Overhead to Avg. Assets (median)	3.32%	3.36%	3.46%	3.57%	3.81%
<b>Liquidity/Sensitivity</b>	<b>Sep-04</b>	<b>Sep-03</b>	<b>Sep-02</b>	<b>Sep-01</b>	<b>Sep-00</b>
Loans to Deposits (median %)	83.10%	77.90%	80.20%	79.63%	77.53%
Loans to Assets (median %)	68.97%	66.23%	67.77%	67.86%	66.86%
Brokered Deposits (# of Institutions)	101	103	96	90	78
Bro. Deps./Assets (median for above inst.)	3.21%	3.70%	4.17%	2.97%	2.25%
Noncore Funding to Assets (median)	19.71%	19.82%	20.54%	21.53%	19.72%
Core Funding to Assets (median)	65.75%	65.89%	65.76%	65.34%	67.33%
<b>Bank Class</b>	<b>Sep-04</b>	<b>Sep-03</b>	<b>Sep-02</b>	<b>Sep-01</b>	<b>Sep-00</b>
State Nonmember	157	152	157	166	179
National	74	79	80	83	81
State Member	36	46	49	53	49
S&L	9	11	12	15	16
Savings Bank	25	26	30	30	32
Stock and Mutual SB	0	0	0	0	0
<b>MSA Distribution</b>	<b># of Inst.</b>	<b>Assets</b>	<b>% Inst.</b>	<b>% Assets</b>	
Los Angeles-Long Beach CA PMSA	79	96,481,585	26.25%	12.15%	
San Diego CA	35	22,192,282	11.63%	2.79%	
Orange County CA PMSA	28	48,321,287	9.30%	6.08%	
San Francisco CA PMSA	28	193,828,585	9.30%	24.40%	
Riverside-San Bernardino CA PMSA	20	11,203,251	6.64%	1.41%	
Oakland CA PMSA	14	106,858,064	4.65%	13.45%	
Sacramento CA PMSA	13	5,709,945	4.32%	0.72%	
Stockton-Lodi CA	11	261,697,672	3.65%	32.94%	
Santa Barbara-Santa Maria-Lompoc CA	7	9,360,325	2.33%	1.18%	
San Luis Obispo-Atascadero-Paso Robles CA	7	3,686,600	2.33%	0.46%	
All Other MSAs	47	30,031,283	15.61%	3.78%	
No MSA	12	5,036,806	3.99%	0.63%	